Municipalities Can Mitigate Risks of Accepting Cash

When it comes to fraud, waste, and abuse of public resources, cash is king. In a recent criminal prosecution, a former municipal parks and recreation director pleaded guilty to charges which involved, among other offenses, his theft of more than $100,000 in cash paid for concessions and tickets at the town pond.

While this is one example, the OIG could point to many instances where cash has been misdirected for personal use. When a municipality handles cash without proper controls, it is often impossible to determine whether all of the money collected is being deposited into the municipal treasury. Indeed, when the former parks and recreation director's desk was searched, town employees were shocked to find multiple envelopes containing thousands of dollars in cash. Over the years, how many thousands were not in the pencil drawer but otherwise misdirected?

Accepting cash creates an inherent challenge that is best to address head-on, while being mindful of practical limitations to eliminating all risks. While your municipality may feel obligated to accept cash as legal tender, and may even be required in some circumstances under Massachusetts law to accept cash when offering goods and services for sale, there are several actions you can take as a steward of public resources to limit the risks, including:

1. Identify where cash transactions occur in your municipality in order to prioritize mitigation strategies;

2. Limit the number of municipal locations accepting cash, perhaps to a single location, and expand electronic payment capabilities;

3. Limit the amount of cash your municipality receives; and

4. Improve processes for receiving and recording cash.

Identify Where Cash Transactions Occur

A primary means to mitigate the risks involved in cash transactions is to identify all the sources of cash transactions in your municipality. Simply put, you don't know what you don't know. While it may be obvious that some municipal functions regularly receive cash – such as senior center activities, libraries, and copy machines – you may be surprised to learn how many municipal departments occasionally

receive cash and for what purposes. Conducting a regular assessment of municipal revenue sources can help you identify which departments most frequently conduct cash transactions and should receive closer scrutiny. Your findings could be valuable if you face an audit and may also reveal areas needing review by an auditor during your annual audit cycle.

Limit the Number of Locations Accepting Cash

An annual review of your municipal locations that accept cash and the rationale for that acceptance at each location is a strong risk mitigation strategy. Many municipalities continue to accept cash but have reduced the locations from many points of sale – such as transfer stations, parking lots, and parking meters – to fewer locations. Some have narrowed their various points of sale to a single location (typically the treasurer's office in a town or city hall) for all municipal functions, while expanding the acceptance of electronic payments across the municipality. These actions create a strong record to audit, reconcile, and track.

Limit Cash Transactions

The most effective way to reduce the risk of accepting cash is to limit the number of cash transactions. For the sake of convenience, many sources of municipal revenue are increasingly being collected electronically. In a digital age, fewer citizens are interested in paying for their activity fees or parking fees by mailing a check, and even fewer are willing to visit the town treasurer to pay with cash. Municipalities have responded to this demand by creating or procuring software to receive payments online. To the extent possible, your municipality should encourage transactions to be conducted through digital payments by expanding the types of transactions that can be conducted electronically, reducing transaction fees, or improving the user experience.

Create and Improve Processes for Cash Transactions

Any individual in the cash handling chain could be a potential culprit if you realize that cash is missing. Because cash does not leave a paper trail, you should create and enforce recording processes wherever cash is used. From the moment cash is received to the moment it is deposited into a bank account, your municipality should have internal controls in place. Along the entire chain of cash handling, the greatest single risk occurs when the same individual is responsible for both receiving the cash and accounting for the cash during deposit. While recognizing that practical considerations such as budget restrictions do exist, your municipality should make every attempt to ensure that a different employee is responsible for reconciling cash records. It is also important to prepare internal estimated receipts using past history or other metrics as a guide. These estimates can set expectations for fees that your municipality will collect, such as municipal golf course fees or municipal swimming pond parking fees in July. Otherwise, how can you compare what was actually turned in to what was expected to be turned in?

What Can You Do?

A. To limit cash transactions:

1. Annually review locations across your municipality where cash is accepted. Why is it necessary to

collect cash at those locations? What controls are in place, and how can they be improved? Are additional controls necessary?

2. Encourage municipal departments to identify transactions that can be moved online and work to facilitate the move. For example, if the parks department accepts online payments for some fees (such as those charged for sports field reservations), it could work with the technology department to begin accepting online payments for other types of fees (such as those charged to enter public pools).

3. Create a list of the online payment portals your municipality currently uses and consider whether some services can be consolidated on the same portal.

4. Work with your procurement officer to determine whether a different online portal could result in lower transaction fees.

B. To create proper controls for cash transactions:

1. Produce cash receipts in triplicate so that one copy is maintained by the department receiving the cash, one copy is sent to your accounting office, and one copy goes to the fee payer.

2. If producing a receipt is not possible, ensure that the department keeps contemporaneous records for cash transactions and that those records are saved for auditing purposes. Consider using video technology, such as a camera at a beach parking lot to record parking fee transactions. Save the video recordings for real-time and future reviews, for reconciliations, or for part of an investigation, if necessary.

3. Ensure that departments turn over cash payments to the treasurer on a timely basis (preferably within 24 hours) and that the treasurer, in turn, deposits the cash into the municipal bank account in a timely manner.

4. Create records in instances where cash is handed over from one employee to another.

5. Ensure that different employees are responsible for recording cash transactions and reconciling records with deposits.

6. Periodically compare departments' actual cash receipts to budgeted or anticipated cash revenues (based on historical trends) and be prepared to act on any anomalies.

C. To identify sources of cash transactions:

1. Routinely assess all revenue sources to identify where cash transactions occur, noting the regularity and scale of the cash transactions (*e.g.*, payments for park concessions, parking meters, and dog licenses).

2. Review enterprise funds separately from the regular budget. Cash transactions are more commonly deposited in an enterprise fund.

3. Be aware of seasonal changes in cash transactions. For example, municipal parks departments often receive an influx of cash in the summer months.

Conclusion

Properly managing cash transactions is a difficult proposition for any municipality. But you can reduce risks by working to increase non-cash methods of payment, creating and improving records of cash transactions, and regularly assessing where and how cash transactions occur. As cash transactions become less common, it is important to remain alert to the high risk of fraud, waste, and abuse that cash poses to any municipality.

A future edition of *OIG In Your Inbox* will address controls that municipalities can use to mitigate risks when they sell assets and receive cash payments, such as when a municipality sells scrap metal.

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